

Exchange Pricing (EP) Smart Book



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The Exchange Pricing Smart Book is a concept statement and contains information that is current as of the date on the cover page. This document defers to the approved Statement of Work (SOW) and schedule for the Exchange Pricing project and the approved Exchange Pricing business rules as the official requirements baseline.

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MACOM	Major Army Command
MCN	Management Control Number
MRC	Maintenance Repair Code
MRO	Materiel Release Order
MS3	Milestone 3
MW	Middleware
NAMI	Non-Army Management Item
NICP	National Inventory Control Point
NIIN	National Item Identification Number
NMP	National Maintenance Program
O&M	Operation and Maintenance
OPTEMPO	Operating Tempo
OOU	Order of Use
OSD	Office of the Secretary of Defense
PBD	Program Budget Decision
PM-LIS	Program Manager, Logistics Information Systems
PM-SAMS	Program Manager Standard Army Maintenance System
QIF	Quality Initial Failure
QDR	Quality Deficiency Report
SAMS	Standard Army Maintenance System
SARSS	Standard Army Retail Supply System
SEPR	Serviceable Exchange Price Return
SIT	Systems Integration Test
SNRF	Stock Number Relationship File
SOS	Source of Supply
SOW	Statement of Work
SP	Standard Price
SSA	Supply Support Activity
SSF	Single Stock Fund
TEMP	Test and Evaluation Master Plan
TRM	Training Resource Module
ULLS	Unit Level Logistics System
YBH	Document Identifier Code (DIC) for a SARSS Catalog add or delete transaction

24. Acronyms:

2LM	Two-Level Maintenance
AAR	After Action Review
ADP	Automated Data Processing
AFSB	Army Field Support Brigade
AMC	Army Materiel Command
AMI	Army Managed Items
ASA (FM&C)	Assistant Secretary of the Army (Financial Management & Comptroller)
AWCF	Army Working Capital Fund
CASCOM	US Army Combined Arms Support Command
CCB	Configuration Control Board
CCSS	Commodity Command Standard System
CDA	Central Design Activities
CRE	Cost Recovery Elements
CRR	Cost Recovery Rate
CTASC	Corps Theater ADP Service Center
DA	Department of the Army
DFD	Detailed Functional Descriptions
DIC	Document Identifier Code
DODAAC	Department of Defense Activity Address Code
DOTMLPF	Doctrine, Organizations, Training, Materiel, Leadership and Education, Personnel and Facilities
ECP	Engineering Change Packages
EP	Exchange Price / Exchange Pricing
EPBR	Exchange Pricing Business Rules
EPIP	Exchange Pricing Implementing Procedure
ERP	Enterprise Resource Planning
FCM	Funds Control Module
FEDLOG	Federal Logistics Record
FMR	Financial Management Regulation
FY	Fiscal Year
GCSS-Army	Global Combat Support System- Army
HQDA	Headquarters, Department of the Army
IAW	In Accordance With
LAC	Latest Acquisition Cost
LCMC	Life Cycle Management Command
LIW	Logistics Information Warehouse
LOGSA	Logistics Support Activity
LMP	Logistics Modernization Program
LPC	Local Procurement Contract
LRC	Loaded Repair Cost

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Get Smart on Exchange Pricing!

1. The Exchange Pricing (EP) Smart Book Purpose

The “Smart Book” is a guide designed to inform both logistics and financial managers of the Army’s plan to implement EP on 1 April 2008 (Third Quarter, Fiscal Year 08). It is a tool that these managers can use as a hip pocket guide to educate their customer support base on the program concept, goals, benefits and execution strategy. The EP Smart Book provides the following:

- ❑ Overview of the EP concept
- ❑ Program directives
- ❑ Outline of the EP business rules (EPBR)
- ❑ Description of the Army’s strategy to implement EP
- ❑ Description of the EP Tracking File
- ❑ EP Process Flows and Decision Logic
- ❑ EP Conversion Preparation steps

2. Exchange Pricing

Exchange Pricing (EP) is a business process improvement mandated by the Office of the Secretary of Defense (Comptroller) to mitigate the financial problems the Army has experienced with granting excess credit through its current supply practices.

The objective of the current Army Working Capital Fund (AWCF) Credit Policy is to synchronize Major Army Command Operating Tempo (MACOM OPTEMPO) costs with funds budgeted for spares via the Training Resource Model (TRM) and other customer input processes. The TRM utilizes historical data to predict demand and allows credit for reparable items to provide incentive for organizations to turn-in unserviceable component parts that Army Materiel Command (AMC) repairs and returns to inventory to support unit readiness needs.

To achieve the objective, the credit system must remain in balance with demands and sales. In the past, that balance was achieved by a management system at the “retail” MACOM level through fiscal controls and credit policies that fit the local situations but maintained the overall balance. The phase out of the retail management layer under the Single Stock Fund (SSF) concept has resulted in an imbalance of credit sales that has caused serious problems in replenishing inventories to support unit readiness and has

customers and the Army leadership,. Together we should be able to work through these problems. The details remain to be worked out, but per the EPBRs

- ❑ A procedure will be available to resolve posting errors.
- ❑ Each MACOM will establish a discrepancy validation process with AMC Representation.
- ❑ ASA FM&C and HQDA G4 will create a periodic panel to act as resolution authority and set a standard timeframe for resolution of unresolved discrepancies.
- ❑ AMC will determine process and procedures for reversal of charges.

Together we can make this program successful from the outset.

23. EP Integration Team Points of Contact

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item and that issue matches a non-reparable / condemned transaction present in tracking.

In all cases, the Delta bill will be applied to the fiscal year in which the original obligation occurred.

21. The Financial Process Under EP

The financial process for Army customers will change to accommodate Exchange Pricing. The following outlines the key changes that will influence the revised financial process.

- ❑ There will be no credit for unserviceable turn-ins of EP items by Army EP customers.
- ❑ An Army EP customer who turns-in a serviceable EP item in 60 days or less from an issue will be refunded SEPR. This transaction and the matching issue will be posted to inactive Tracking.
- ❑ An Army EP customer who turns-in a serviceable EP item without a matching issue in tracking will receive SEPR. This turn-in will not post to EP Tracking.
- ❑ An Army EP customer who is issued an EP item, and subsequently fails to perform a matching turn-in within 60 days of issue will be charged a penalty (Delta Bill) for the difference between the SP and EP.
- ❑ An Army EP customer who is issued an EP item, and subsequently performs a matching turn-in of a condemned carcass within 60 days of issue will be charged a penalty (Delta Bill) for the difference between the SP and EP.
- ❑ Serviceable and unserviceable turn-ins of non-EP stock numbers will receive credit based upon current policy and the Army Credit Table value.
- ❑ Serviceable and unserviceable turn-ins of EP stock numbers performed by non-EP customers (including other services) will receive credit based upon current policy and the Army Credit Table value.

22. Resolution of Discrepancies

Discrepancies are bound to happen in spite of the best efforts of the Exchange Pricing implementation and fielding teams, retail and national supply management personnel, financial management personnel, Army EP

depleted AWCF cash balance to near zero. Furthermore, the credit imbalances have left unexpended funds budgeted in Operation and Maintenance (O&M) accounts for spare parts.

In order to rectify this situation, the Army will convert to a dual pricing system. All items will have a Standard Price (SP). Additionally, Army Managed National Stock Numbered (NSN) items with a Maintenance Repair Code (MRC) of F, H, D, K, or L that are on an existing or planned national repair program will also have an Exchange Price (EP). Essentially, those nationally repaired items will be issued at a discounted price based upon an expected return. If EP items are not returned within the established timeline (Delta Delay Days), the process will generate a Delta Bill (SP minus EP), which would result in a net cost of the full Standard Price to the customer. Army G4 established the initial Delta Delay Days at 60 days for the implementation of EP.

In conjunction with EP implementation all remaining O&M cataloged items will be capitalized by the AWCF (i.e. similar to SSF Milestone 3 (MS3) conversions). Locally assigned stock numbers, part numbers, Management Control Numbers (MCN), and part numbers not in the Federal Logistics Record (FEDLOG) will remain as O&M-funded normal inventory.

3. Why the Army is Implementing EP

Program Budget Decision (PBD) 422, 11 December 01, directed the Army to implement EP in order to mitigate the financial problems associated with excess credit provided through the supply business area.

On 24 January 03, the Office of the Assistant Secretary, Financial Management and Comptroller (ASA (FM&C)), requested AMC take the lead to develop an EP Implementation Plan. AT&T Government Solutions, Inc. conducted a study to recommend an option that was suitable both functionally and financially for the implementation of the EP program. This study was completed and briefed to ASA (FM&C). AMC presented the implementation plan to Office of the Secretary of Defense (OSD) on 15 May 03, and it was approved for execution.

Exchange Pricing will be fielded in an interim system architecture solution until the Logistics Modernization Program (LMP) Core at the National Inventory Control Points (NICP) (national level) is completely fielded and the initial fielding of Global Combat Support System- Army (GCSS-A) has commenced. Exchange Pricing is scheduled for Army-wide fielding on 1 April 2008.

4. Exchange Pricing Terms

Having an understanding of basic terminology (Figure 1) is key to understanding the EP concept.

Exchange Pricing Terms	
Standard Price (SP)	= Latest Acquisition Cost (LAC) plus Cost Recovery Rate (CRR)
Exchange Price (EP)	= Loaded Repair Cost (LRC) plus CRR
Delta	= SP minus EP
Serviceable Standard Price Return	= Serviceable Credit Rate
Serviceable Exchange Price Return (SEPR)	= EP minus CRR
Unserviceable Credit	= SP minus (LRC plus CRR)
Delta Delay Days	= Parameter specified period of time used to track EP relevant transactions and generate billing trigger
Active Tracking	= EP relevant transactions resident in EP Tracking that have not exceeded Delta Delay days
Inactive Tracking	= EP relevant transactions that have moved from Active Tracking as a result of matching issues and turn-ins or exceeding Delta Delay Days.
Loaded Repair Cost (LRC)	= (Average Repair Cost multiplied by Final Recovery Rate Percentage) plus [Latest Acquisition Cost multiplied by (1 minus Final Recovery Rate Percentage)]
Cost Recovery Rate	= The first 9 Cost Recovery Elements (CRE) identified in paragraph 55.I.2.b, V 11-B, DOD 7000.14-R Financial Management Regulation (FMR). NOTE: CRE 10 (Retail Losses) discontinued. If the 9th CRE element (Carcass Attrition (Washouts & Losses) IS NOT included in CRE, add this attribute to the EP formula.

Figure 1. Exchange Pricing Terms

5. How EP Differs from the Current Army Pricing and Credit Process

Figure 2 illustrates how Army business practices will change from the current environment of operating with a separate sales price and credit price, to a dual pricing system with an EP and a SP for Army managed items (AMI) with MRC = F, H, D, K, or L, that are in an existing or programmed national repair program, and SP for all other items. There will be no unserviceable credit under EP for Army EP Customers.

For Army EP customer turn-ins of EP items after conversion (the first 60 days of EP implementation) there will not be any credit given for unserviceable turn-ins. Serviceable turn-ins will continue to receive SEPR.

- ❑ If the turn-in is an EP item, then the process checks for a match to an issue in the Tracking File.
 - If EP and the D6_ matches an issue transaction in the Tracking File, the transactions are linked and the Delta clock is stopped for both transactions. Additionally
 - if the turn-in is serviceable, Tracking will trigger SEPR for the customer.
 - if the turn-in is unserviceable but reparable, there is no financial trigger.
 - if the turn-in is unserviceable condemned, Tracking will trigger a Delta bill.
 - If EP and the D6_ does not match an issue transaction in the Tracking File, then:
 - SEPR is issued for a serviceable turn-in and the D6_ does not enter Tracking.
 - No credit is given for an unserviceable but reparable turn-in and the D6_ enters active Tracking.
 - No credit is given for an unserviceable condemned turn-in and the D6_ enters active Tracking.

20. How a Customer Gets a Delta Bill

The Tracking process generates a Delta bill if any of these circumstances occur:

- ❑ An Army EP customer will get a Delta bill if he is issued an EP item(s) and does not turn-in a reparable carcass within 60 days of the issue. The customer can return the item(s) to any EP designated SSA. He does not have to turn-in to the same SSA from which it was issued.
- ❑ An Army EP customer will get a Delta bill if he is issued an EP item and subsequently matches that issue with a turn-in of an unserviceable condemned item.
- ❑ An Army EP customer will get a Delta bill if he is issued an EP

reparable turn-in and then an unmatched condemned turn-in. If there is a match found, and

- if the turn-in was for an unserviceable but reparable item, then the issue transaction will link to the turn-in transaction and both the issue and turn-in transactions will be posted to inactive tracking. The Delta Delay clock will stop for both transactions and there is no financial trigger.
 - if the turn-in was for an unserviceable condemned item, then the issue transaction will link to the turn-in transaction and both transactions will be posted to inactive tracking. The Delta Delay clock will stop for both transactions and a Delta Bill will be triggered.
- If the issue transaction is not linked to an unmatched turn-in in either the inactive or active tracking files, then the issue will be posted to active tracking, the Delta Delay clock will start, and there will be no financial trigger.

19. The Process Flow/Decision Logic for an Army EP Customer Turn-in (D6_) Under EP...Steady State

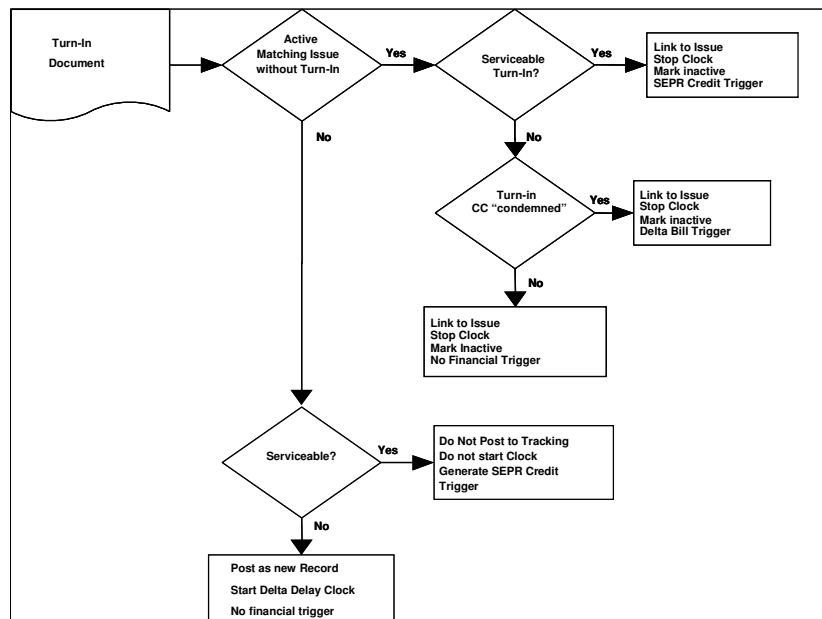


Figure 11. Post-Conversion Customer Turn-Ins

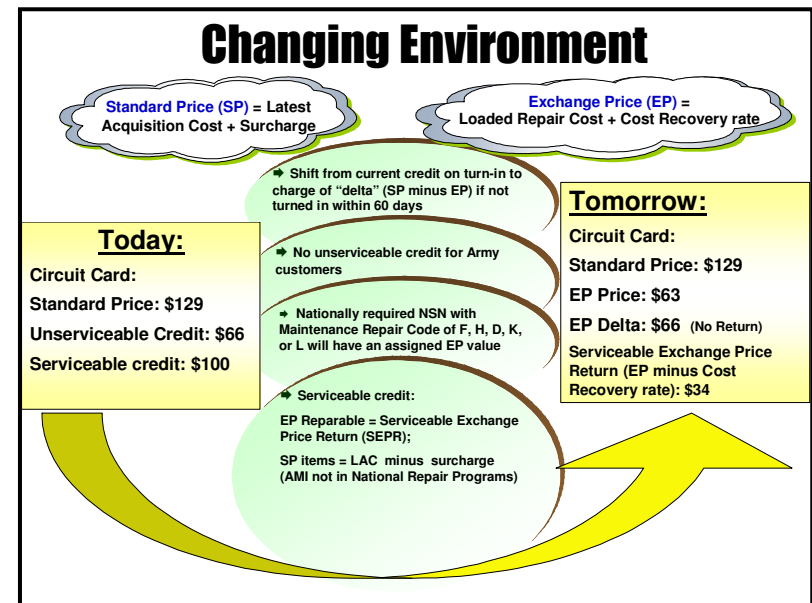


Figure 2. Changing Environment under Exchange Pricing

Today, when a customer buys an AMI with MRC = F, H, D, K, or L, they are charged a SP (LAC plus CRR). Using the Circuit Card (in Figure 2) as an example, the SP would be \$129.00. When the customer returns the unserviceable carcass back to the supply system, they receive an Unserviceable Credit Rate equal to SP minus the LRC plus CRR. In the case of the circuit card, this would be \$66.00. The customer's net cost is \$63.00. If, however, the customer returns a serviceable circuit card back to the supply system, they receive a Serviceable Credit Rate, which, in this example, would be \$100.

Under EP, the customer will be charged EP (LRC plus CRR) upfront for an EP item. The EP price for the circuit card would be \$63.00. If the customer returns the unserviceable carcass back to the supply system within the Delta Delay Days or less from the requisition issue date, action is complete – there are no additional charges or credit to the customer. If the customer does not return the unserviceable carcass back to the supply system with the Delta Delay Days or less, they will be charged the Delta (SP minus EP). The Delta Bill for the circuit card would be \$66.00. This Delta Bill is also incurred if the unit or Supply Support Activity (SSA) determines that the turn-in carcass' condition renders it non-reparable/condemned. Finally, if the customer returns a serviceable circuit card to the supply system, they will receive SEPR (a refund equal to EP minus CRR). For the circuit card, this would be \$34.00. As demonstrated in the circuit card example, as long as the customer follows the EPBRs,

their net price is the same for both the current and EP environments.

6. How the Post-EP Army Reparable Program Differs from the Current Tactical Reparable Program

TODAY. Currently, the Tactical Reparable program is a commander's program under which unserviceable repair parts, components and assemblies, authorized for repair and/or replacement at the field-level, are exchanged for serviceable items. The Tactical Reparable program satisfies near-term readiness requirements and/or meets training requirements to maintain acceptable soldier maintenance skill levels. Items selected for the Tactical Reparable program can be part of a national repair program, or they can be tailored to meet the local commander's needs. As long as the commander has authorization to repair the item (i.e. meets the criteria in Army Regulation 710-2, para 3-14d), the commander can add it to their Tactical Reparable program.

All Tactical Reparable items are O&M funded, and are managed internal to a command in an O&M cost transfer environment. The command is funded through the TRM for piece parts required to repair items it has in its Tactical Reparable program and washouts. When an unserviceable is turned-in to the SSA, the customer receives an unserviceable credit. When the customer gets a new item, the customer pays the SP. The SSA, in turn, job orders the unserviceable item to its maintenance shop, which repairs and returns it to stock. The serviceable item goes back on the shelf until it is issued to a customer and sold again for SP. If the maintenance activity cannot repair the item, and the SSA has to buy a new item to replace the washout, or add a new item to stockage, it pays SP to the AWCF. **BOTTOMLINE:** when a Tactical Reparable item is repaired, the actual cost to the command is the cost of piece parts for repair and washouts.

TOMORROW. In conjunction with the implementation of EP, all O&M cataloged items will be capitalized and owned by the AWCF. Non-Army Managed Items (NAMI) will be similarly capitalized. Locally assigned Stock Numbers, part numbers, MCNs, and part numbers not in FEDLOG will be O&M funded normal inventory. (Source of Supply is a Local Procurement Contract (SOS = LPC)).

The implementation of EP along with the capitalization of DX/RX items will further enhance the Army's ongoing transition to a Two-Level Maintenance (TLM) system. Under the TLM system there is field-level maintenance at the tactical level and sustainment maintenance at echelons above. Field-level maintenance involves removal and replacement of repair parts and not making any repairs to those repair parts themselves. Actual repair (the reparable program) will be conducted by maintenance activities that are workloaded by the National Maintenance Program (NMP) and not the

18. Process Flow/Decision Logic for an Army EP Customer Issue (A5_) Under EP ...Steady State

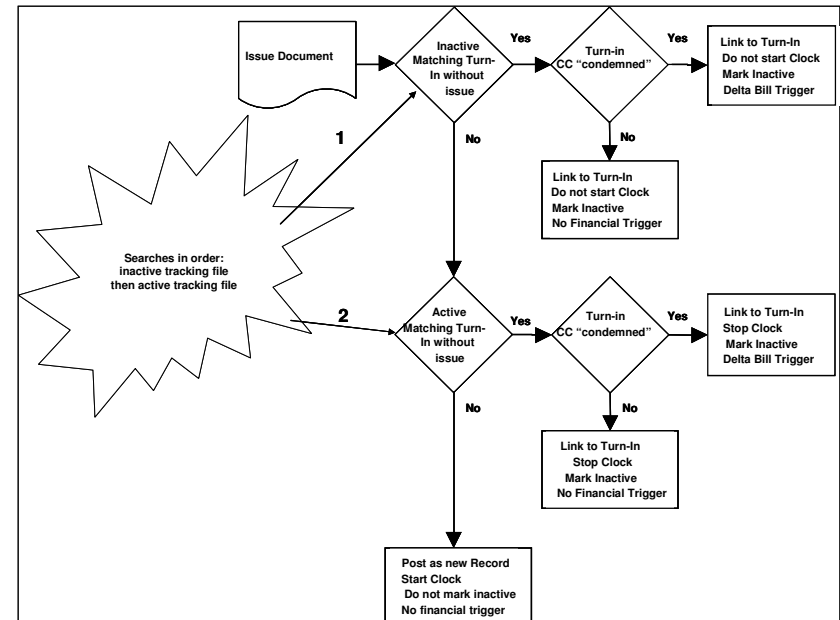


Figure 10. Post-conversion Customer Issues

After conversion, Exchange Pricing will enter its steady state. Army EP customer issues for EP items will be processed using normal supply procedures and the customer will be billed EP. When an EP item is issued to an Army EP customer the transaction is processed as follows:

- ❑ When an issue is made, Tracking will first search the inactive tracking file for (in order) an unmatched repairable turn-in and then unmatched condemned turn-in. If there is a match and
 - if the turn-in was for an unserviceable but reparable item, then the issue transaction will link to the turn-in transaction and be posted to inactive tracking. The Delta Delay clock will not start and there is no financial trigger.
 - if the turn-in was for an unserviceable condemned item, then the issue transaction will link to the turn-in transaction and be posted to inactive tracking. The Delta Delay clock will not start and a Delta Bill will be triggered.
- ❑ If there is no match for the issue in the inactive tracking file, then the active tracking file is searched for (in order) an unmatched

- If EP and the D6_ matches an issue transaction in the Tracking File, the tracking clock/process is stopped and both the turn-in and issue transactions move to inactive tracking. Additionally
 - If the turn-in is serviceable, Tracking will trigger SEPR for the customer
 - If the turn-in is unserviceable but reparable, there is no financial trigger
 - If the turn-in is unserviceable condemned, Tracking will trigger a Delta bill.
- If EP and the D6_ does not match an issue transaction in the Tracking File, then:
 - SEPR is issued for a serviceable turn-in and the D6_ does not enter tracking
 - Unserviceable credit is issued for an unserviceable but reparable turn-in per current Army credit policy and the D6_ does not enter tracking
 - No credit is given for an unserviceable condemned turn-in and the D6_ does not enter tracking

17. Post-Conversion Exchange Pricing...Steady State

After the initial 60-day conversion period, Exchange Pricing implementation will enter a steady state. The grace period for turning-in EP items and receiving credit will be over and all transactions by Army EP customers for EP items will follow the regular EPBRs. Paragraphs 18 and 19 below describe the process flow and decision logic for EP transactions.

tactical commanders. Reparable programs at the tactical level will no longer exist except in special circumstances. The designated Life Cycle Management Command (LCMC) is the approval authority for those programs. These repair programs will be reimbursed from national-level funds, will be billed SP, and will use current credit policies. Figure 3 compares the reparable program of today with the reparable program of tomorrow under EP.

TACTICAL REPARABLE SCENARIO	TODAY	TOMORROW (EXCHANGE PRICING)
AMI Reparable Stockage	O&M Funded	AWCF Funded
NAMI Reparable Stockage	O&M Funded	AWCF Funded, removed from Army repair programs
Customer Issue of Reparable item	Customer billed Standard Price	Customer billed Exchange Price for EP items, and Standard Price non- EP items
Customer (D6_) Unserviceable Turn-in <u>not</u> processed within Delta Delay Days or less from requisition issue date	Customer does not receive credit until turn-in (D6_) is processed at SSA	Customer charged Delta Bill
Customer (D6_) Serviceable Turn-in with matching issue	Customer receives Serviceable Credit when D6_ is processed at SSA	Customer receives Serviceable Exchange Price Return (SEPR) if EP item. NSN by NSN credit policy will apply to SP items
Customer (D6_) Serviceable Turn-in without matching issue	Customer receives Serviceable Credit when D6_ is processed at SSA	Customer receives SEPR if EP, and NSN by NSN credit policy will apply if SP

Figure 3. Comparison of Reparable Program of Today with Tomorrow

7. Basic Tenets of Exchange Pricing

Under Exchange Pricing, an EP (in addition to SP) will be established for Army Managed NSNs with a MRC of F, H, D, K, and L that are on an existing or planned national repair program. The EP will equal LRC plus CRR.

- Customer Issues of EP Items
 - Army EP customer requisitions for Army Managed NSNs with MRC F, H, D, K and L that are on an existing or planned national repair program (EP Items) will be charged the EP.
 - Other Army and Non-Army customer requisitions for EP items will be charged SP.
 - Non-EP NSNs will have only a SP and all customers will be charged SP.

❑ Customer Turn-Ins of EP Items

- If a serviceable turn-in is made against an EP item, the customer will be issued SEPR which equals EP minus CRR.
- If a repairable carcass for an EP item is not returned within the Delta Delay days or less of requisition issue date, the customer will be billed for the Delta (SP minus EP).
- There will be no unserviceable credit for Army EP customers.
- Army customers not operating in an EP environment and non-Army customers will be given credit for serviceable and unserviceable turn-in of repairable items in accordance with current credit policies and/or Joint Service Regulation 700-99

8. Exchange Pricing is Not a New Concept

Although different terminology is used, both the Navy and Air Force have been operating under Exchange Pricing for more than 10 years. The concepts for all three services are basically the same. All calculate an EP for stock numbers with MRC of F, H, D or L, and all impose a penalty for unserviceables that are not returned within a prescribed timeframe.

The main difference among the services is in tracking carcass returns. Both the Air Force and Navy use a detailed level tracking system and maintain the identity of a requisition and corresponding turn-in by using the same document number for both. The Army, on the other hand, will initially use Summary Level Tracking (Department of Defense Activity Address Code (DODAAC)) and National Item Identification Number (NIIN) tracking for customer issues against customer returns. If a Delta Bill (obligation adjustment) is incurred, it will be made against the original issue document number. The rationale for this decision was time and money driven. If the Army were to adopt a detailed level tracking system in the current logistics and financial environment, major programming changes would be required, not only to the Standard Army Retail Supply System (SARSS) and Middleware (MW), but also to Unit Level Logistics System (ULLS) and Standard Army Maintenance System (SAMS). These changes would be cost prohibitive, and would force major changes to legacy systems for an interim solution. Instead, the proposed tracking register that the Army uses may evolve to detailed (document number) tracking as a result of modernization and fielding of new systems, i.e. Global Combat Support System - Army (GCSS-Army) and Logistics Modernization Program (LMP).

9. Exchange Pricing Rules of Engagement

The EPBRs and Exchange Pricing Implementing Procedures (EPIP) represent the foundation for all program planning (see Figure 4). They were

During the EP conversion period, when an Army EP customer is issued an EP item, the following process occurs:

- ❑ The issue will post as a new record in active tracking.
- ❑ The Delta Delay clock will start and tracking will wait for a matching turn-in.
- ❑ The customer will be billed EP for the item.

16. The Process Flow/Decision Logic for an Army EP Customer Turn-in (D6_) Under EP During the Conversion Period

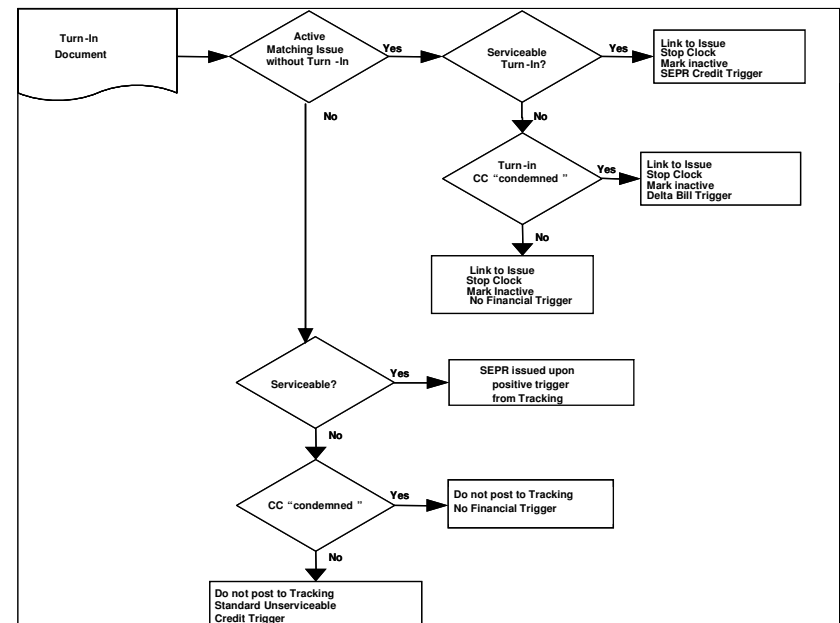


Figure 9. Customer Turn-ins During Conversion

For Army EP customer turn-ins of EP items during the conversion period, how the turn-in is processed in the Army's supply and financial systems will depend upon whether or not the turn-in matches an issue of the item.

- ❑ If the turn-in is an EP item, then the process checks for a match to an issue in the Tracking File. (note: only issues made after 1 APR 08 will be in Tracking)

14. How Army EP Customers Can Prepare for EP Conversion

Every effort is being made to ensure that conversion to EP is as seamless and painless for customer units as possible. Army EP customers can help this process by clearing transactions initiated under the current Army pricing and credit policies in the months leading up to 1 Apr 08 to. This includes exerting extra effort to quickly close out pending turn-ins against issues, and also turning-in any excess reparables (both serviceable and unserviceable). Additionally, with the capitalization of all O&M cataloged items, customers and SSAs should ensure that as many open DSRX maintenance and supply transactions as possible are completed prior to the conversion date. The fewer transactions processed during this conversion period for EP items using current Army credit policies, the smoother the transition to Exchange Pricing will be.

15. The Process Flow/Decision Logic for an Army EP Customer Issue (A5_) Under EP During the Conversion Period

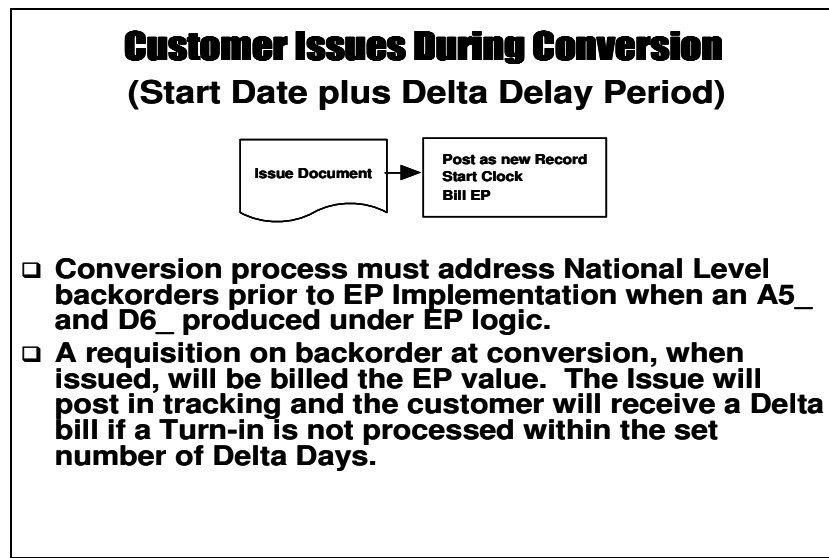


Figure 8. Customer Issues During Conversion

built using a consensus process, which included the participation of ASA (FM&C), Headquarters Department of the Army (HQDA) G-4, AMC, LMP, Program Manager Logistics Information Systems (PM-LIS), Middleware, Defense Finance Accounting System (DFAS), MACOMs, Conversion Team, Implementation Team, and the Enterprise Integration Team. These business rules will drive Army policy, procedures, and information technology solution decisions for EP. All changes to the EPBRs will be IAW the Business Rules Standard Operating Procedures (SOP). This SOP prescribes policies, responsibilities, and procedures for developing and modifying the EP business rules. Recommended changes may be submitted anytime in the standardized format.

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPBR 1	Army managed National Stock Numbers with a Maintenance Repair Code (MRC) of F, H, D, K, and L that are on an existing or planned national repair program will have an Exchange Price (EP) in addition to Standard Price (SP); all others will have only SP.
EPIP 1.1	The Exchange Price equals Loaded Repair Cost plus Cost Recovery Rate.
EPIP 1.2	AMC will establish a Standard Price (SP), Exchange Price (EP), Serviceable Exchange Price Return (SEPR), and Delta for Army managed National Stock Numbers with a Maintenance Repair Code (MRC) of F, H, D, K, and L that are on an existing or planned national repair program.
EPIP 1.3	AMC LCMC publishes and provides to Logistics Support Activity (LOGSA) for broadcast the Army Credit Table data elements (i.e. Standard Price, Exchange Price, Serviceable Credit, Unserviceable Credit [for Non-Army Customers], Serviceable Exchange Price Return, and Delta) before the beginning of each fiscal year. With the exception of Department of the Army (DA) authorized adjustments, these numbers shall remain constant throughout the year of execution.
EPIP 1.4	LOGSA will create new data fields in the Army Credit Table in coordination with AMC based on EPIP 1.3.
EPIP 1.5	Army EP customer requisitions for items with Army EP will be charged the Exchange Price (EP).
EPIP 1.6	Deleted
EPIP 1.7	Deleted
EPIP 1.8	There is no unserviceable credit for Army EP customers.

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPIP 1.9	NSN-by-NSN Credit policy applies only to serviceable returns that are not EP.
EPIP 1.10	If a serviceable turn-in is made against an EP item, the customer will be credited with Serviceable Exchange Price Return (SEPR) upon receipt of positive trigger from tracking.
EPIP 1.11	Customers will be billed (on original issue document number) for the Delta (SP-EP) for EP items when a repairable carcass is not returned within a parameter specified period of time (Delta Delay) from the issue date, or when a condemned carcass is turned in against an issue.
EPIP 1.11.1	The Delta bill will be applied to the FY of the original Document Number and suffix as an obligation adjustment.
EPIP 1.11.2	Delta Delay period of time will be established by HQDA for theater or other area of operations down to a supporting Supply Support Activity (SSA) level. Exceptions may be requested through Army Field Support Brigade (AFSB), AMC G3, to Army G4.
EPIP 1.12	The process will accommodate catalog changes from EP to SP and from SP to EP.
EPIP 1.12.1	All financial transactions processed after the effective date of a catalog change from EP to SP and SP to EP will be at the new value.
EPIP 1.13	The customer will receive purchase price for Quality Initial Failure (QIF) and up to purchase price for Quality Deficiency Report (QDR) IAW current policy.
EPIP 1.14	Those Supply Support Activities (SSA), which have been approved by DA G-4 to remain in an O&M environment, will be billed Standard Price for <u>all</u> items. They will receive serviceable credit (Stock Number by Stock Number) for serviceable turn-ins, but will receive no credit for unserviceable turn-ins.
EPIP 1.15	Non-Army customers will be billed SP and issued credit upon return of a carcass IAW JSR 700-99.
EPBR 2	Processes will be developed to track EP transactions based on established Business Rules. Tracking will initially be accomplished for SARSS supported customers. EP tracking ultimately will migrate to enterprise systems GCSS-Army and LMP.

Tracking within FCM will consist of the active tracking file and the inactive tracking file. Transactions will remain in this tracking until all subsequent transactions required to clear the record are processed, or until the Army EP customer fails to meet the time limitation (Delta Delay Days), as stated in the EPBRs. Department of the Army G4 has set Delta Delay Days at 60 days for EP implementation.

- ❑ The active tracking file consists of:
 - Issue transactions less than 60 days old that have not been matched to a turn-in.
 - Turn-in transactions less than 60 days old that have not been matched to an issue.
- ❑ The inactive tracking file consists of:
 - All applicable transactions matching turn-ins to issues. These transactions are closed out and remain for historical purposes.
 - Open unmatched issue and turn-in transactions older than 60 days. (Note – unmatched transactions will be removed from inactive tracking 365 days from the transaction date).

13. Conversion to Exchange Pricing

While “Big Bang” implementation on 1 April 2008 is great in theory, the fact is that Army leadership wanted a transition period to allow units to close out open transactions that were initiated using current obligation and credit policies. This conversion period will be the first Delta Delay period of the program (1 April – 30 May 2008). During this conversion period, Army EP customers:

- ❑ will pay EP for EP items issued
- ❑ will continue to receive unserviceable credit for unserviceable turn-ins of EP items providing that the turn-in transaction does not match a post-Big Bang issue (1 Apr 08 or later)
- ❑ will receive SEPR for serviceable turn-ins

Unmatched turn-ins during this first 60 days after Big Bang will not post to Tracking. The conversion period process flows and decision logic will be further explained in paragraphs 15 and 16 below.

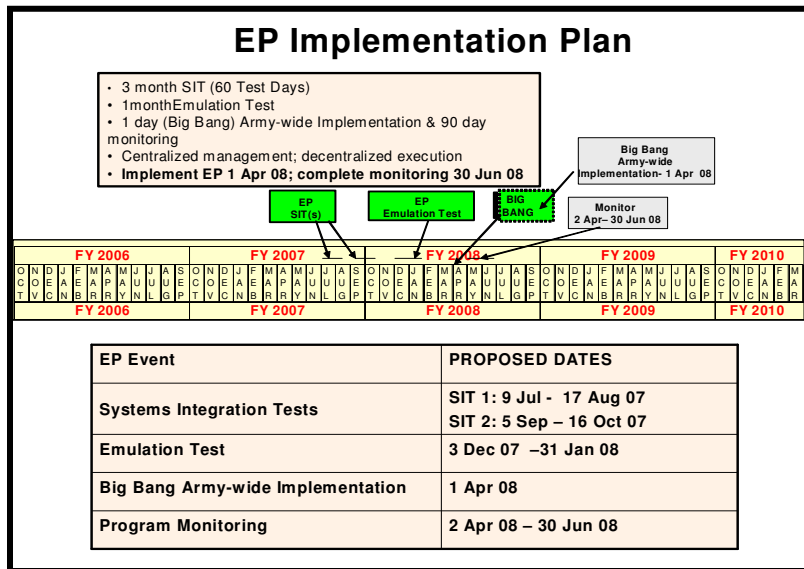


Figure 7. Exchange Pricing Implementation Plan

12. EP Tracking

EP Tracking is a newly created function in FCM that was developed to enforce the EPBRs. The tracking function will migrate to enterprise systems GCSS-Army and LMP upon their fielding. Data produced in the tracking file of FCM will generate reports viewable within FCM for financial managers, and the data will be pulled from FCM by the LIW and used to generate reports for use by supply and maintenance managers and Army EP customers.

The EP tracking process identifies transactions to track, processes the transactions identified, marks transactions to go to the inactive tracking, and triggers obligation adjustments (Delta Bills). In order for a transaction to enter into EP Tracking the following two conditions must be met:

- ❑ The Stock Number of the item issued or turned-in must be an EP designated item as defined throughout this booklet and be recorded as such in FEDLOG.
- ❑ The DODAAC must identify the customer as an Army EP customer.

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPIP 2.1	The process will identify by customer DODAAC and prime stock number for all lines with an EP value assigned, and will capture all required transactions.
EPIP 2.1.1	EP and SP rolled up to Prime Stock Number using the FEDLOG Order of Use (OOU) File. Local Stock Number Relationship File (SNRF) (SARSS YBH Table) will not impact EP/SP automation logic.
EPIP 2.2	The process matches customer issues to customer returns and customer returns to customer issues, and monitors Delta Delay days.
EPIP 2.2.1	The start point for tracking expected returns for customer issues will be scenario driven. For customer issues from a supporting SSA that do not have a matching turn-in, the clock will start on the date issue is made (SSA Materiel Release Order (MRO) date).
EPIP 2.2.2	When a customer turn-in matches an issue within prescribed Delta Delay days, the tracking process is complete.
EPIP 2.2.3	The start point for tracking expected returns for remote and dedicated customer issues from National (consignee must be a unit) will start on shipment confirmation (AS_), and restart on the receipt (D6_) transaction date.
EPIP 2.3	The process matches customer issues against the (in order): <ul style="list-style-type: none"> a. oldest Inactive reparable turn-in; b. oldest Inactive condemned turn-in; c. oldest Active reparable turn-in; d. oldest Active condemned turn-in. If no match, the process creates a new record in tracking and starts the Delta Delay clock.
EPIP 2.3.1	The process will take into account process reversals (i.e. denials), and transactions that post out of sequence.

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPIP 2.4	<p>The process attempts to match customer turn-ins against the oldest Active Issue. If a match and:</p> <ol style="list-style-type: none"> Turn-in is serviceable, generate a trigger to issue SEPR. Turn-in is unserviceable reparable, move to inactive tracking Turn-in is unserviceable condemned, generate Delta trigger <p>If no match and:</p> <ol style="list-style-type: none"> Turn-in is serviceable, generate a trigger to issue SEPR. Turn-in is unserviceable reparable or condemned, create new record in tracking and start the Delta Delay clock but do not generate a Delta Bill.
EPIP 2.5	When a turn-in transaction is not processed within the prescribed Delta Delay days, the Tracking System will create a Delta trigger transaction and pass it to LMP/Commodity Command Standard System (CCSS), which will generate and pass the appropriate financial transactions to financial CCSS/LMP.
EPIP 2.5.1	Deleted
EPIP 2.6	The process will purge an unserviceable EP turn-in transaction from tracking if there is no matching issue transaction within 365 days.
EPBR 3	Year-end processes must accommodate EP transactions across fiscal years without adverse effect on appropriations or mission (i.e. by increasing financial workload at installation and wholesale levels, including any automation systems).
EPBR 4	The Logistics Information Warehouse (LIW) will capture data from SARSS supply system of record via the Funds Control Modules (FCM) for management reports for the customer, materiel managers, and financial managers.
EPIP 4.1	Deleted
EPIP 4.2	A procedure will be available to resolve posting errors.
EPIP 4.3	Each MACOM will establish a discrepancy validation process with AMC Representation.
EPIP 4.4	ASA FM&C and HQDA G4 will create a periodic panel to act as resolution authority and set a standard timeframe for resolution of unresolved discrepancies.
EPIP 4.5	AMC will determine process and procedures for reversal of charges.

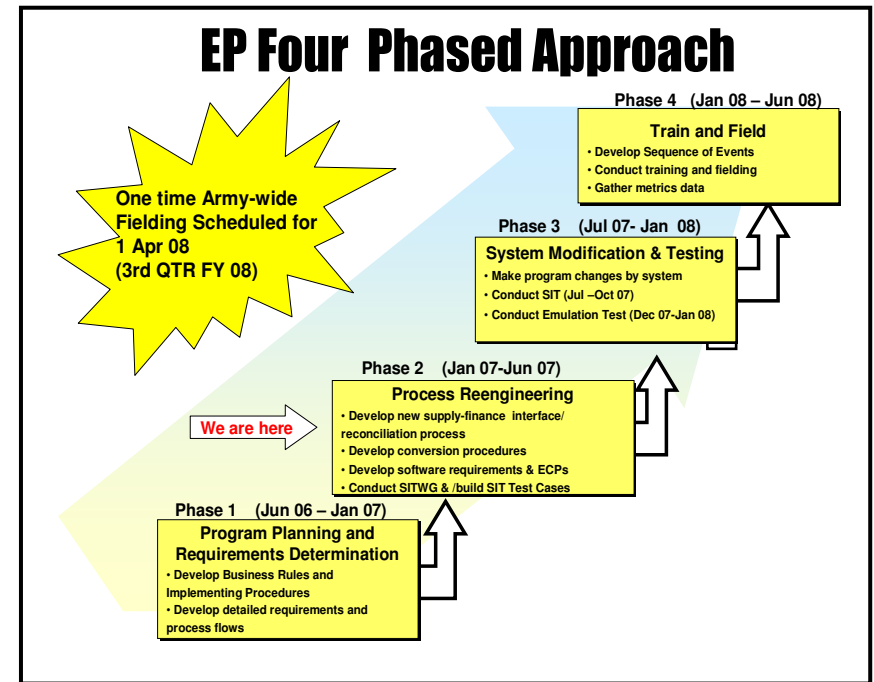


Figure 6. Exchange Pricing Program Phases

phase, the following will be developed:

- Detailed Functional Descriptions (DFD) and formalization of Engineering Change Packages (ECP)
 - Change Management, to include Army-wide staffing and consensus
 - Draft Fielding and Training Strategy
 - Draft Test and Evaluation Master Plan (TEMP) and draft Systems Integration Test (SIT) Plan
 - Draft Implementation Plan
- Phase 3, System Modification and Testing (1 Jul 07 – 31 Jan 08). The objective of this phase is to program and test all required changes to support implementation of the integrated system. This phase includes:
- Final SIT Plan
 - Central Design Activities (CDA) system modifications with Configuration Control Board (CCB) approval
 - Conversion process staffed, blueprinted, and documented
 - Final test case development to validate all systems changes and Business Rule compliance
 - Conduct SITs
 - Finalize Conversion, Implementation, and Training Plans
 - Senior Executive GO/NO GO review and approval of testing results before proceeding to Emulation Test
 - Conduct Emulation Test
 - General Officer/Senior Executive GO/NO GO review prior to proceeding to Phase 4
- Phase 4, Training and Fielding (1 Jan 08 – 30 Jun 08). Phase 4 consists of training, conversion and fielding. This phase includes:
- Implement self-paced, web-based training for EP
 - Provide on-site training teams upon request from MACOMs.
 - Capitalize O&M Cataloged Items
 - Manage and resolve problem reports
 - Conduct an After Action Review (AAR) and document the findings

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPIP 4.6	The LIW is the reporting activity for tracking information.
EPBR 5	Conversion process will accommodate transition to the new environment by providing linkage among the fielding schedule, required catalog changes, systems changes and customer funding.
EPIP 5.1	Active/open transactions generated in the pre-conversion environment will continue to function in the new EP environment.
EPIP 5.2	A turn-in that occurs within Delta Delay days after conversion, but does not have a matching issue, will receive credit.
EPIP 5.2.1	A serviceable turn-in that occurs within Delta Delay days after conversion without a matching issue will receive Serviceable Exchange Price Return (SEPR) upon receipt of positive trigger from tracking.
EPIP 5.2.2	An unserviceable turn-in that occurs within Delta Delay days after conversion without a matching issue will receive Unserviceable Credit and will not be posted into tracking.
EPIP 5.2.3	An unserviceable condemned turn-in that occurs within Delta Delay days after conversion without a matching issue will not receive Unserviceable Credit.
EPIP 5.3	Conversion process must address National Level backorders prior to EP Implementation when an A5_ and D6_ produced under EP logic.
EPIP 5.3.1	A requisition on backorder at conversion, when issued, will be billed the EP value. The Issue will post in tracking and the customer will receive a Delta bill if a Turn-in is not processed within the set number of Delta Days.
EPIP 5.4	Cataloged O&M items will be capitalized in accordance with paragraph F.1 of chapter 55, volume 11B of the DOD Financial Management Regulation (FMR) (i.e., similar to SSF MS3 conversions).
EPIP 5.5	Locally assigned Stock Numbers, part numbers, Management Control Numbers, and part numbers not in FEDLOG will be O&M funded normal inventory. SOS = LPC.
EPBR 6	Items used in nationally reimbursed maintenance work will be billed at SP and use current credit policies. LCMC is approving authority for this work.

EPBR & EPIP	Exchange Pricing Business Rules (Baseline Locked 19 January 2007)
EPBR 7	Procedures will be developed to address Exchange Pricing under contingency operations.
EPIP 7.1	Changes to EP under contingency operations approved by Department of the Army.
EPIP 7.2	In support of Department of the Army contingency operations, systems architecture will support the capability to charge standard price and grant no credit, serviceable or unserviceable, for a Turn-in.
EPBR 8	Deleted
EPBR 9	AWCF funded National Maintenance work will be direct cited.
EPIP 9.1	The US Army Combined Arms Support Command (CASCOM) in coordination with Program Manager Standard Army Maintenance System (PM-SAMS) will develop procedures to implement

Figure 4. Exchange Pricing Business Rules

10. Systems Architecture Support to EP

The EP interim solution involves making programming changes in SARSS, MW, CCSS and FCM. For the new multi-tiered pricing structure AMC LCMC will publish and provide to LOGSA for broadcast the Army Credit Table Data Elements (i.e. SP, EP, SEPR and Delta) before the beginning of each fiscal year. After broadcast, the Army Credit Value Table will reside in FCM for use in triggering EP/SP, SEPR and Delta transactions in CCSS. FCM will also contain the tracking function for EP transactions.

The EP optimal solution involves changes to Enterprise Resource Planning (ERP). It requires LMP to develop/maintain tracking capabilities for its direct supported customers, and to develop a tracking register function for its trading partners (tactical customers). SARSS, MW and FCM will be required to make some programming changes to accommodate the EP environment, as well. The new multi-tiered pricing structure and the Army Credit Value Table will reside in FCM. Figure 5 encapsulates the vision, objectives, and the concept of operations for EP.

Exchange Pricing Overview

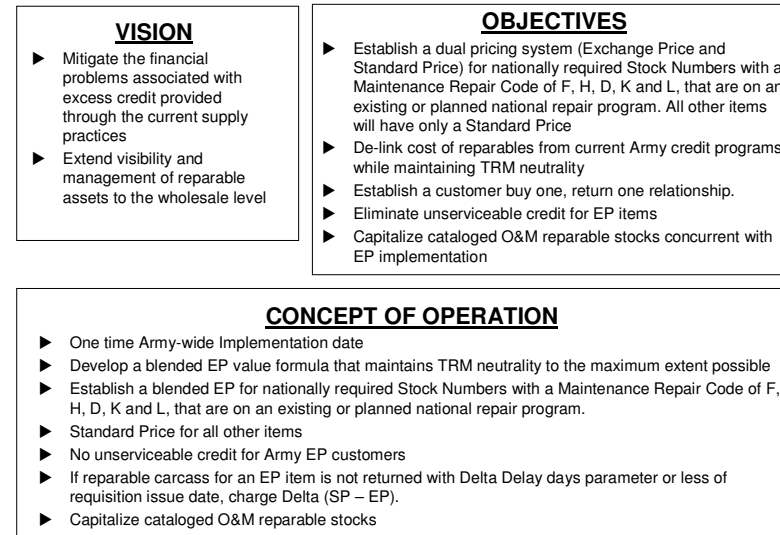


Figure 5. Exchange Pricing Overview

11. The Army's Strategy for Success with EP

The goal is to implement Exchange Pricing throughout the Army in third quarter FY08 (1 April 2008). Through backward planning, a four-phased overlapping strategy (See Figure 6) has been developed to meet that goal. Additionally, a slide showing the EP Implementation Plan is provided in Figure 7.

- Phases 1&2, Program Planning/Requirements Determination and Business Process Reengineering (1 Jun 06 – 30 Jun 07). The purpose of Phase 1 is to define the best technical and managerial approach for successfully implementing EP. During this phase, the "AS IS" system architecture and transaction processes are being defined and the best option for the "TO BE" system architecture and transaction processes is being determined. The business rules have been developed to assist in documenting the "AS IS" and will develop the new "TO BE" systems. Draft process flows have been designed to depict the way transactions are passed from one system to another. The "TO BE" system will drive the DOTMLPF (Doctrine, Organizations, Training, Materiel, Leadership and Education, Personnel and Facilities) changes needed across the Army and will impact how to initiate these changes. The purpose of Phase 2 is to determine what needs to be changed for the Army to establish a dual pricing system and implement EP. During this